ECONOMIC INDICATORS

SPECIAL LEGISLATIVE SUPPLEMENT

The 1985-1986 Legislative Biennium: A Summary of Economic Issues in the Hawaii State Legislature

INTRODUCTION

With the opening of the 1985-1986 Legislative Biennium, this special legislative supplement to the *Economic Indicators* marks the first full report of the Research Department of First Hawaiian Bank on economic development issues facing the Hawaii State Legislature in 1985. This special edition reflects our conviction that the 1985-1986 Legislative Biennium may represent a watershed in economic development policies, given the range and significance of issues that are to come before the legislature. If transformed into actions, these issues could have a collective impact unparalleled in Hawaii's economic history.

Hawaii stands at the threshold of making choices that will shape its economic environment for years to come. This environment has come under intense scrutiny recently because of Hawaii's perceived indifference to the needs of business development and economic growth.

However, efforts have begun to improve our business climate, and to revise laws and regulations to better meet the demands of a modern, competitive small-business economy. This legislative supplement is an expression of our support for these efforts, and the desire to promote discussion and community participation on the critical economic issues now on the public agenda.

The supplement is composed of synopses of reports to be received by the legislature involving issues related to economic development. The reports have been organized according to the following topics: The Governor's Commission on Hawaii's Economic Future; business policies; labor policies; infrastructure policies; regulatory policies; and policies affecting particular industries including tourism, agriculture, fisheries, housing, and energy. Each section, in turn, is begun with a brief summary and introduction. For further reference, the numbers for the respective initiating legislative resolutions or acts have been included. While information on each issue is presented, final recommendations to the legislature are discussed only in those cases where the final reports have been completed by the time of publication. Also, the information contained in this supplement does not include legislation that will be written and submitted during the legislative session.

THE GOVERNOR'S COMMITTEE ON HAWAII'S ECONOMIC FUTURE

To assess the condition of Hawaii's economy and devise strategies for its continued growth, Governor George R. Ariyoshi formed the Governor's Committee on Hawaii's Economic Future early in 1984. Composed of 36 leaders from business, labor, and higher education, the Committee met with various groups and individuals in the community to develop a set of recommendations to the Governor aimed at promoting Hawaii's special quality of life, its high standard of living, employment opportunities for all residents, and diversification of the economy.

Education was viewed as the key to Hawaii's economic and social progress. Besides continued emphasis on basic skills, the Committee called for a stronger curriculum in economics, on Hawaii's unique cultural heritage, and on the utilization of new technology. Regarding higher education, the Committee recommended continued research and training in support of Hawaii's industries, with particular emphasis on programs relating to Asia and the Pacific region.

The visitor industry also drew strong support. Recommendations included continuing capital improvements for visitor-related infrastructure such as sewer systems, airports, highways, and parks. A new convention center for Waikiki, public and private collaboration to ensure well-planned resort areas, and public education on the value of tourism were also endorsed.

Marketing and promotion activities were deemed very important for tourism and agriculture as well. Establishment of an Agriculture Marketing Bureau was advocated to promote Hawaii products throughout the world. The Committee suggested that tourism marketing for the Neighbor Islands be differentiated and made more independent to enable the targeting of special visitor markets for each island.

Finally, the Committee stated that while Hawaii has lost its locational advantage for shipping, it continues to hold an advantage in its time zone position for business transactions, in becoming the knowledge center of the Pacific Basin, and in serving as the strategic center of U.S.

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defense activities in the Pacific. One of the ways that Hawaii businesses can profit from Hawaii's new role as the hub of the Pacific, according to the Committee, is to act as an intermediary for trade between firms in the U.S. and businesses in Asia.

BUSINESS POLICIES

The most direct way in which state governments can assist businesses is by capital-assistance programs. These programs take many forms. Programs currently operating in Hawaii include loan programs to help small businesses to expand and new business ventures to get started. Product-promotion programs also help firms to develop overseas markets, and revenue bonds are used in the construction of facilities for enterprises such as hospitals and public utilities. Other programs offer encouragement for agriculture, and protection for agricultural land. Finally, international trade is promoted through the State Foreign Trade Zone.

Other forms of capital assistance used in other states include interest-subsidy and loan-guarantee programs, state funded or chartered venture-capital corporations, development-credit corporations, and product-development corporations, as well as enterprise zones and various tax-incentive programs. Other states have also made much more extensive use of industrial revenue bonds to develop business plants and infrastructure.

In the forthcoming legislative session, the feasibility of converting from the making of direct loans to businesses using state funds to the offering of state guaranteed loans issued by private lenders will be explored. Training programs for persons interested in starting new businesses will also be examined, in addition to ways of expanding the promising high technology industry in Hawaii.

Financial Assistance to Businesses

(HR 19, 1984)

Most of the state's $250 million housing and business assistance loan programs are in the form of direct loans of state funds. This method may have an adverse impact on the credit and finances of state government because it relies on the raising of large amounts of capital by the state.

An alternative approach is for the state to guarantee loans issued by private lenders, which would greatly relieve the state's capital burden, while underwriting important capital assistance to businesses. Although state guaranteed loans are already authorized under some programs, few such loans have been made thus far due to the lack of start-up funds.

Because of the state's limited experience in guaranteeing loans, a study was directed to investigate whether private lenders are capable of raising sufficient capital for state programs, and whether the method would be financially attractive to the state. Other questions involve the probable impact of the approach on high-risk businesses assisted by many of the programs, the amount of reserves needed to guarantee the loans, and other financial implications of such a shift.

The final report to be prepared by the Department of Planning and Economic Development will be submitted to the State House of Representatives upon completion.

Technical Assistance for Small Businesses

(SR 37, 1984)

A major problem faced by small businesses, which is often the cause of business failures, is the lack of adequate managerial skills.

To meet this compelling need, the Honolulu Community College (HCC) was requested to establish a pilot program of noncredit courses for operators of small businesses. In its report to the legislature, HCC identified as its primary target the small businesses located in the Kalihi-Palama and Sand Island commercial districts. Having confirmed the high level of community interest in small business training, HCC will be offering its first schedule of courses this spring on weekday evenings and Saturdays, covering topics such as business planning, bookkeeping and finances, management, home-based businesses, marketing, business law, taxes, and cost-benefit analysis.

High Technology Industry Development

(HCR 138, HR 364, 1984)

In a plan put forth by the Department of Planning and Economic Development to encourage high technology industries to locate and expand in Hawaii, problems of insufficient industrially zoned land, inadequate water availability, an anti-growth business climate, the high cost of living, insufficient industrial infrastructure, and inadequate tax and financial incentives were identified as impediments to the industry's continued growth.

Last year, the newly established Hawaii High Technology Development Corporation was requested by the legislature to find ways to overcome these impediments. In its response to the 1985 legislature, the Corporation submitted a wide-ranging set of proposals. In education, the Corporation supported provisions contained in the University of Hawaii's "Strategy for Academic Quality 1985-1995" including the commitment to adopt a strong core curriculum at all university and community college campuses. Stronger ties with private industry were also endorsed.

Regarding business assistance, recommendations included exemptions for the industry from the use tax, the manufacturing excise tax, and the excise tax on exports. The Corporation also called for streamlining the land use permit process, helping entrepreneurs obtain venture-capital funding, and joint public and private funding of marketing efforts aimed at Japan, Hong Kong, Taiwan, and the Mainland.

Finally, several sites in the state were identified as having potential for high technology park development. The Corporation further recommended that it be authorized to issue special-purpose revenue bonds to develop those sites, and that the counties also be authorized to establish tax-increment districts to aid in the development of high-technology parks.

LABOR POLICIES

Labor costs are a major component in the operating costs of most firms, especially small businesses. Thus, issues involving employee-benefit programs rank high on private industry's legislative agenda. The accelerating cost of employee insurance programs, most notably workers' compensation and unemployment compensation, have drawn the greatest concern. Attention has also focussed on the spiralling cost of health care, which has become an increasing burden to both employers and employees. In addition, the right of public workers to strike has come under some criticism by the business community.

In this year's legislative session, state lawmakers will receive a report on workers' compensation which makes recommendations to bring the exceptional costs of Hawaii's program under control. A progress report is also scheduled on the ongoing controversy over pay differentials between male and female dominated occupations.

Workers' Compensation

(HCR 172, SCR 61, 1983)

In 1983, the legislature took action to control spiralling

workers' compensation costs, and to respond to criticism that the program was too lenient in providing benefits, and thereby imposing unreasonable costs on businesses. A moratorium on increases in workers' compensation insurance rates was declared, and a study was commissioned to find ways to control costs, while improving the effectiveness of the program.

The final report confirmed the exceptional cost of Hawaii's program. The study found that since 1979, benefits per employee, corrected for inflation, have increased at a compound annual rate of 15 percent per year, making Hawaii's cost of workers' compensation insurance the highest in the country in 1983. Costs are higher in Hawaii in large part because awards are paid to far more claimants than is true in other states, and because medical costs per case are high. No simple explanation for these conditions could be found, only that the overall system lacks effective control over program costs.

Of the more than two dozen recommendations prepared, the major recommendations were that: (1) the amount of compensation paid should better correspond with the actual economic loss suffered by an employee due to a work-related injury; (2) coverage for medical treatment not required for rehabilitation should be eliminated; (3) the processing of claims, benefit payments, claim hearings, and disputes should be improved; (4) competition among insurers should be increased; (5) incentives for employees to return to work as soon as possible should be strengthened; and (6) the controversial "presumption clause," which supports an employee's claim that an injury is work-related, should be retained, but only if a "preponderance of evidence," rather than the more demanding "substantial evidence" standard of proof be required to overcome the presumption.

The report to the legislature on workers' compensation was prepared by Haldi and Associates under the direction of the Office of the Legislative Auditor.

Comparable Worth

(Act 185, 1984)

Although state public employment policies have supported fair and unbiased systems of employee classification, evaluation, and compensation, a 1979 study found that many government jobs are segregated by sex, and that female-dominated job classes receive less pay than male-dominated ones.

Relatedly, the Hawaii Government Employees Association (HGEA) last year threatened, and in November finally sued the state and county governments, alleging that they intentionally discriminated against female employees by paying lower wages for jobs traditionally held by women that are of "comparable worth" to higher paying work performed by men.

In response to these actions, a study was authorized by the legislature to be performed by a newly established Commission on Comparable Worth. The study is to examine wage differentials in state and county government, and recommend a job evaluation system that would implement the concept of comparable worth in all public employment systems. A preliminary legislative report was due this year, with the final report to be submitted in 1986. However, at the time of publication, work on this study was brought to a halt because of the effect of the HGEA suit on the disclosure of necessary information. Further progress in the study and the feasibility of the original completion date have thus been made uncertain.

Puna Sugar Closing

(HCR 84, HR 206, 1984)

In 1982, American Factors, Inc. (Amfac) announced the closing of the Big Island Puna Sugar Company, which at the time employed nearly 500 persons, and maintained over 15,000 acres in sugarcane production. The closing, completed in 1984, brings with it an enormous economic dislocation to Puna residents, many of whom are lifelong residents of the area, and are now facing limited alternatives for reemployment.

In anticipation of this difficult period, programs were initiated by Amfac and by county and state governments to ease the disruptive effects of the closing. Supplementing these efforts was a legislative request to the Mayor and County Council of the Big Island to assemble an Economic Transition Team.

This group is to develop an action plan to assist Puna residents displaced by the closing to secure new employment. The range of possible actions that the group could recommend includes job training and referral, assistance to new and existing businesses, land lease adjustments, and direct financial and social assistance to Puna residents.

The results of the report will be submitted to the legislature.

INFRASTRUCTURE POLICIES

Infrastructure refers to the extensive systems that provide those services so necessary for urban life: electricity, water, sewer, as well as gas and telephone systems. Roads, sidewalks, and neighborhood parks are also infrastructural systems because of their importance for transportation and the maintenance of open space. Policies affecting infrastructure are therefore critical. Without proper infrastructure, urban land development cannot occur.

Reports to be received in 1985 concentrate on the regulation of sewerage facilities. In one report, ways to accommodate commercial and industrial activity within the requirements of new cesspool and septic tank regulations are reviewed. In another report, issues are examined arising from the transfer from the state to the counties of regulatory power over private wastewater-treatment plants.

Sewage Injection Controls

(SR 129, 1984)

A proposed Department of Health regulation drew concern during the 1984 legislative session over the future of commercial or industrial activity on lands above threatened groundwater resources. In the regulation, cesspools or septic tanks servicing nonresidential buildings would be limited to a flow of 1,000 gallons of sewage per day. Also, above the 500-foot elevation level, the regulation would prohibit the construction or use of sewage injection wells that are typically used to service most commercial or industrial operations. One effect of this regulation, it was feared, would be to preclude commercial or industrial operations on the upland slopes of the Neighbor Islands. Supporting the measure was the Department of Health, which favored the restrictions to protect underground sources of drinking water from contamination. The controls would also qualify the state to receive federal grant money to implement other safeguards for groundwater resources.

Because of the problems posed by the new rule, the Department and the mayors of the respective counties were requested to meet with the Governor to discuss the impact of the new rule and ways of dealing with its restrictions.

The results of the meeting will be submitted to the State Senate.

Private Wastewater-Treatment Facilities

(SR 131, SR 155, 1984)

The regulation of private wastewater-treatment sys-

tems has in the past been shared between the state and county governments, an arrangement which has led to problems of accountability and inefficiency. In 1978, a recommendation was made to transfer all responsibility for administering those regulations to the counties. This was approved in principle by all of the counties, but to date, only the City and County of Honolulu is ready to operate such a program.

A new problem arose with the 1983 enactment of new state regulations prohibiting the construction of private wastewater-treatment facilities without the approval of the appropriate county government. Because not all of the counties are ready to assume this new regulatory responsibility, concerns were raised that many new developments requiring private treatment plants would be halted.

County and state officials met in 1984 to discuss the issue. As discussed in a report to the 1985 State Senate prepared by the Department of Health, the officials arrived at two basic findings. First, they felt that the transfer of private wastewater-facility regulation to the counties was still a good idea, but one that required a transfer of funds from the legislature to the counties to implement. Second, until such funds are received, new developments requiring private facilities will be allowed by the State Department of Health to proceed on a case by case basis according to criteria developed by the City and County of Honolulu.

REGULATORY POLICIES

The power to tax is perhaps government's most pervasive regulatory instrument. Through a complex schedule of tax levies and exemptions, a broad range of activities are encouraged or discouraged in the public interest.

The 1985 legislature will consider a comprehensive proposal to reform Hawaii's tax system. Among other things, the recommendations call for the elimination of many tax credits and exemptions to simplify the tax system, the adjustment of tax rates to correct for inflation and to maintain progressivity in tax rates, and the establishment of new taxes and revenue sources to compensate for the reduced collections of proposed reforms.

Another important regulatory subject this year concerns water resources. A new water code is proposed to govern the development, distribution, and use of water throughout the state. Finally, a proposal to restructure the state's environmental monitoring system will be examined.

The State Tax System

(Act 212, 1983)

For the first time since the mid-1950s, Hawaii's tax structure has been comprehensively studied by the Hawaii Tax Review Commission. Overall, the Commission found that the existing tax structure will provide enough revenues to maintain state spending at current levels for the next five years. However, there needs to be a "rainy day" fund to cover year-to-year fluctuations in revenue collections.

The individual income tax came under critical scrutiny because of the numerous special tax exemptions and deductions that have been added to it over the years which complicate the system and are of questionable effectiveness. Also, inflation has pushed taxpayers into higher tax brackets, creating special hardships for low-income households. Responding to these issues, the Commission recommended that many tax exemptions, deductions, and credits including the credits for child care expenses and for the installation of solar energy devices be eliminated or simplified to broaden the tax base and allow tax rates to be lowered. In broadening the tax base, pension and Social Security benefits earned by higher income households would be taxed as they are under federal income tax rules. These measures would enable taxpayers to be treated more uniformly for both excise and income tax purposes. Taxpayers would obtain a substantial amount of relief by a major downward revision of income tax brackets to correct for past inflation.

In making these adjustments, a net loss in tax revenues would be incurred. To offset this, the Commission recommended the imposition of a visitor tax and a state lottery. The visitor tax could take the form of an increase in the excise tax on hotel rooms, or as a general excise tax increase that would be refunded to taxpayers through an income tax credit. Rather than be earmarked for specific uses, the revenues from either proposal should be treated as general purpose funds to finance the estimated $50 million revenue loss from adjusting the income tax brackets for past inflation, plus additional revenue reductions which would be incurred from other recommended improvements to the tax system.

In considering Hawaii's business climate, the Commission felt that the business tax burden of the present system is about average compared to other states. A few improvements were suggested to the existing excise tax on interaffiliate transactions and on exports from Hawaii. A proposal contained in the Commission's earlier draft that would reduce tax pyramiding by replacing the general excise tax with a universal privilege of business tax and a net excise tax was abandoned.

For a commentary on the initial draft of the State Tax Commission's report, see the November/December 1984 cover story of the *Economic Indicators*.

The State Water Code

(Act 170, 1982)

The Hawaii Constitution calls for the protection, control, and regulation of Hawaii's water resources by a legislatively designated State Water Resources Agency. Working out the necessary details of this mandate for presentation to the 1985 legislature has been the task of the State Advisory Study Commission on Water Resources.

The proposed code addresses the use and protection of all ground water, surface water, and coastal water in the state. Regulation is to be accomplished by a system of permits required for the withdrawal of water from any water source. Permits would be indefinite in duration, but would have to be reapplied for if major changes are made in

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the use of the water, such as from agricultural to urban use. Administering the code would be the task of the Board of Land and Natural Resources, which now administers the permit system for the Pearl Harbor groundwater basin.

Major issues that have been raised about the proposed code have involved the comparative merits and demerits of a market approach versus a regulatory approach to water allocation, county home rule versus statewide water control, and fears of an excessive regulatory burden on business activity versus a desire to protect the public welfare and the environment in all water allocation decisions. Principal critics of the code have been the sugar and pineapple plantations, who require large amounts of water for their irrigation needs, and who have made a huge investment in water development and distribution facilities. It has been stated that those facilities presently carry over 60 percent of Hawaii's developed water resources.

For additional information, see the November/December 1984 issue of the *Economic Indicators*.

State Environmental Agency

(HCR 78, SCR 135, 1984)

Local concern over environmental safety and regulation has been high following recent incidents involving the release of toxic substances into the environment. Such incidents have included the discovery of heptachlor in milk, the detection of pesticides in ground water, the finding of improperly stored chemical wastes, and the expression of concern by Puna residents on the Big Island about geothermal emissions. The potential risks from environmental hazards is likely to grow as the state continues to develop alternative energy resources, and encourage the growth of high technology enterprises. The possible development of ocean manganese nodule mining in Hawaii would also pose new environmental problems requiring appropriate treatment.

In 1983, a joint state House and Senate study committee reviewed Hawaii's existing environmental monitoring system and concluded that better coordination was needed. Subsequently, in the 1984 session, the Legislative Reference Bureau was asked to study the possible establishment of a state environmental protection agency similar to the kind of agency found in other states. Establishment of such a body would consolidate environmental activities now spread among several agencies, and may have an impact on environmental permitting procedures. Upon completion, the results of the study will be submitted to the legislature for possible action.

TOURISM POLICIES

The visitor industry has been the subject of numerous proposals from the business community aimed at ensuring tourism's continuing vitality. In the past, recommendations have been issued to construct a new convention center, provide for a high and stable level of tourism promotion, appropriately regulate time-share resort units, improve the human environment in Waikiki, and avoid the imposition of new tax levies on tourists. The volume of suggested improvements reflect the community's great concern for Hawaii's largest industry.

Since statehood, the visitor industry has gone through great swings in growth. As the state has experienced these changes, opinions about and within the industry have become increasingly fragmented. To work toward developing a new consensus on the desired future of tourism in Hawaii, a State Tourism Congress was convened with the participation of representatives from the visitor industry, lawmakers, government agencies, and community groups. The recommendations of the congress will be considered by the 1985 legislature. Also to be reviewed is a study on the feasibility of building a new convention center.

Governor's Tourism Congress

(HR 66, SR 50, 1984)

As the largest industry in the state, tourism draws great attention and concern from public policymakers. With evidence growing on the massive reshaping of the Hawaii economy due to tourism's growth, the legislature directed the convening of a congress representing the visitor industry, business, labor, government, and the community to formulate a unified public policy on the future direction of the industry. Such a congress has not been convened since 1970, a period of booming tourism that contrasts sharply with the economic environment of today.

Congress participants were polled on a variety of issues. The results show strong support for the continued growth of tourism, including aggressive state and privately funded promotional efforts to achieve a projected 8 million visitors a year by the year 2000. An increase in promotional funding to $10 to $20 million was supported, with such promotions to focus on attracting higher spending, longer staying visitors rather than on increasing the sheer numbers of tourists. An increase in the general excise tax that would be refunded to residents was supported to pay for increased tourism promotion and support. Continued improvement in Waikiki's physical facilities was approved, including the construction of a new convention center at Ft. DeRussy to be operated by an independent public corporation.

Although tourism related projects were favored, issues relating more directly to island residents and the environment were supported as well. The congress placed priority for residents over tourism concerns if such a trade-off had to be made. The congress also voted to support restrictions on noisy recreational activities such as helicopters and jet skis, safeguards against commercial overuse of recreational areas, and proper planning to avoid the overloading of local communities by tourist activities. Diversification of both the tourism industry and the state economy as a whole were endorsed.

Tourist Convention Center

(HCR 130, HR 67, 1984)

An idea long discussed as a way of expanding and diversifying Hawaii's visitor industry is the establishment of a new convention center facility. According to supporters of a new center, the convention market is an expanding

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and profitable segment of the tourist trade, with business spending of $15 billion per year nationwide. Adding to its financial attractiveness is the fact that conventions are often booked well in advance and scheduled during the off-peak months of the tourist industry. Hindering Hawaii's wider participation in this market, however, has been the lack of available convention facilities possessing exhibition space and meeting rooms comparable to centers on the Mainland.

To further explore the establishment of a new convention center, the legislature called for a joint publicly and privately funded study on the feasibility of building a new facility in the state. Issues to be addressed include the appropriate location of a new center and the recommended method of financing and managing it.

The final report will be submitted to the legislative session upon its completion.

AGRICULTURAL POLICIES

From its early position of dominance in the Hawaiian economy, agriculture has slipped far behind the relatively newer industries of tourism and defense. However, the importance of agriculture remains high, and in the search for potential avenues for diversifying Hawaii's economic base, new hope has developed over the promising growth of diversified agriculture.

Past efforts to assist agriculture have included the development of agricultural parks and irrigation ditches, the issuance of low-cost loans to farmers, and the promotion of Hawaii's agricultural products for local and export sale. With the help of supportive laws and regulations, agricultural lands have been sheltered to some extent from development pressures. Research and training programs have also been supported to enhance productivity within the industry.

In the current legislative session, work currently underway to identify and protect the most productive agricultural lands in the state will be assessed. Responding to heightened awareness of the health risks posed by agricultural pesticides, the use of less hazardous pest-control methods will be evaluated. Proposals to facilitate the shipment of agricultural commodities from growers to their markets will also be examined. Finally, ideas for promoting Hawaii's beef cattle industry will be discussed.

Agricultural Land Assessment

(Act 273, 1983)

The State Land Evaluation and Site Assessment Commission was established by the 1983 legislature to identify those lands which are most productive and suitable for agricultural use, and are therefore deserving of protection from urbanization, as mandated by the State Constitution. The Commission, composed of representatives from government, agriculture, landowners, and agricultural researchers, is to devise a system to identify those agricultural lands which are considered especially important to the state, and therefore appropriate for state protection. In the new system, lands are first to be classified according to their physical qualities such as soil characteristics, local climate, and geography. A second set of ratings would then be applied to weigh the agricultural potential of the site against applicable zoning and other land use policies, the surrounding level of development, and the cost of preparing and servicing it for urban development.

In addition to the system for identifying important agricultural lands, the Commission is to also develop recommended agricultural production goals for the state, maps detailing the location of the lands to be protected, and any recommended legislation needed to implement the land classification system. A key element to be scrutinized in the Commission's report is the extent to which the county governments would participate in the implementation of the system.

The final report of the Commission is scheduled for presentation to the 1985 legislature.

Agricultural Consolidation Facilities

(HR 26, 1984)

The high cost of transporting agricultural products from the Neighbor Islands to Oahu's local markets and export transshipment points has long been a major obstacle to the development of the state's agriculture and aquaculture industries. To address this problem, the construction of agricultural product consolidation facilities on each of the islands to permit the efficient collection, storage, and shipment of commodities has been under recent study.

Kona on the Big Island is the first site whose suitability for a consolidation facility was verified and funds appropriated to begin construction. In the latest action, the Departments of Agriculture and Transportation and the Governor's Agriculture Coordinating Committee were asked to monitor work on the Kona consolidation facility, and to rank the suitability of other areas in the state for the construction of additional consolidation facilities. The report of these agencies will be submitted to the State House of Representatives upon its completion.

Intrastate Marine Highway System

(HR 107, 1984)

A critical consideration in the continued development of agriculture and aquaculture in Hawaii is the availability of an efficient and economical interisland marine transportation system. Current problems faced by farmers in this area include the expense and inadequacy of existing air freight and surface transportation service. These problems are particularly acute for Neighbor Island farmers who not only depend on markets in Honolulu, but also must route their products through Honolulu for transshipment to the Mainland or to foreign markets.

Although interisland ferry and barge systems have been examined in the past, the projected costs of those systems have up to now made them unfeasible. The present effort is to explore the possibility of joint federal and state financing for an interisland ferry carrying both people and cargo. This concept represents an extension of the intrastate highway financing projects successfully practiced on the Mainland. Also to be explored is the coordination of the entire agricultural cargo transport system, from packaging, containerization, and treatment to product consolidation, loading, and distribution.

The final report by the Governor's Agriculture Coordinating Committee will be submitted to the State House of Representatives upon its completion.

Alternatives to Chemical Pesticides

(SR 99, SR 172, 1984)

Growing awareness and concern regarding the risks of chemical pesticide use in Hawaii prompted the initiation of two studies on the use of nonpesticide methods to control crop infestations. While the legislature recognized the importance of controlling insect pests to maintain a viable agriculture industry in Hawaii, it also deemed it important to explore new crop protection techniques that pose less of an environmental and health risk.

To be investigated in the requested studies are recent advances in genetic engineering, biotechnology, and behavioral genetics that help to neutralize or disable harmful pests without resorting to dangerous chemicals. Natural

predators to pests and natural plant defenses are also to be considered. These studies are to arrive at a comprehensive crop protection plan that addresses the relationship of all factors affecting crop production and infestation. The plan will also make cost-benefit comparisons of various crop protection methods now available.

Reports on this issue by the University of Hawaii College of Tropical Agriculture and the Governor's Agriculture Coordinating Committee are to be submitted to the State Senate upon their completion.

The Beef Cattle Industry

(SR 100, 1984)

Despite steady sales of about $28 million per year, the Hawaii beef cattle industry has been losing its share of the local beef market, dropping from 50 percent in 1973 to 30 percent in 1983. The industry is dependent on the local market because of high transshipment costs that reduce its competitiveness in out-of-state markets. The industry's future vitality therefore rests heavily on its success in serving Hawaii consumers.

To address these problems and support the full development of the industry, the Governor's Agriculture Coordinating Committee is to develop a comprehensive action plan to better promote Hawaii's beef. This would include an analysis of alternative distribution patterns, consumer attitudes to locally produced beef, and alternative methods of merchandising beef for the local market. The final report will be submitted to the State Senate.

FISHERY POLICIES

Commercial fishing in Hawaii has been a promising but underdeveloped industry. Its contribution to the diversification of Hawaii's economy has been hampered by inadequate facilities, investment capital, product marketing programs, and other problems. The state government responded by developing a comprehensive Hawaii Fisheries Development Plan in 1979 to map out strategies to strengthen the industry. Since then, fish aggregating devices have been deployed to increase the size of catches, and millions of dollars in loans for new fishing vessels have been issued. Finally, new fishing vessel berths and facilities have been constructed at state harbors.

In the upcoming legislative session, lawmakers will see reports on an update of the Hawaii Fisheries Development Plan, and the possibility of attracting modern tuna fishing fleets called purse seiners to utilize Hawaii's ports.

Fisheries Development Plan

(HR 7, SR 43, 1984)

A 1979 Hawaii Fisheries Development Plan is now in the process of being updated in light of new information, such as the results of recent research on the Northwestern Hawaiian Islands completed in 1983. The legislature directed that the public policy implications of the new information on the Northwestern Hawaiian Island fisheries be assessed. In particular, the socioeconomic and cultural impact of these fisheries on Hawaii fishers is to be considered. Also to be studied are the infrastructure needed for the aggregation of small catches, alternative methods of extending the shelf life of fish, the development of local and export markets for frozen fish, and the impact on commercially valuable fish species of fish aggregating devices now being used to boost the amount of fish landings.

The final report, which is to be prepared by the University of Hawaii's Sea Grant Program, will be submitted to the 1985 legislative session.

The Tuna Fishing Industry

(SR 46, 1984)

In view of the 150 percent growth rate in the value of fish caught over the last ten years, commercial fishing has drawn interest as a promising area for the diversification of the Hawaiian economy. One particularly attractive segment of commercial fishing is tuna purse seining, in which large amounts of tuna fish are caught with the aid of purse-shaped nets and swift boats. Several purse seining fleets are currently ported on the West Coast, sailing to fishing areas in the Western Pacific, and stopping over for refueling and resupply at American Samoa, Guam, and occasionally Hawaii.

Stopovers by these fleets can be lucrative for the port areas, with up to $300,000 spent by a single operator during a port call. Furthermore, the value of a purse seiner's catch may range upwards of a million dollars. The 1984 legislature took action to expand Hawaii's role as a transshipment or operating base for purse seiners by directing a study of the costs and benefits of such an expanded role. Issues to be studied include the impact of purse seining on local fishing operations, the capability of facilities in Kewalo Basin, Honolulu Harbor, and the Barbers Point Deep Draft Harbor to accommodate purse seiners, and the probable effectiveness that facility improvements would have in enhancing Hawaii's attractiveness to purse seining operations. The final report, which is to be prepared by the Department of Planning and Economic Development, will be submitted to the State Senate upon its completion.

HOUSING POLICIES

How to address the shortage of affordable housing in Hawaii has been a major bone of contention between public and private agencies for many years. However, with some of the nation's highest housing costs for purchasers and renters, and lowest rates of homeownership, there is little dispute that Hawaii's housing situation is in a critical condition.

State programs in housing have primarily taken the form of rent subsidies, mortgage subsidies, assistance for construction financing, and the provision of lower cost land for housing development. Building industry representatives, on the other hand, have argued for simplification of the development permit process, reducing the burden of development standards and zoning restrictions, and making more agricultural land available for housing and other urban development. Recently, the legislature has been called on to clarify the vesting of development rights, which affects all new construction, including housing.

In the 1985 session, reports will be reviewed on the effectiveness of public policies in influencing the supply and cost of housing in Hawaii, and on the regulation of residential leasehold rents.

Housing Supply Study

(Act 254, 1983)

There have been many legislative efforts to increase the supply of affordable housing for low and moderate income families, including the so-called "gap group" families whose household incomes are too high to qualify for most housing assistance programs, yet are too low to afford a home through conventional private financing sources. In 1983, the legislature reappropriated unused funds in the State Mortgage Guarantee Fund to develop affordable housing by a nonprofit housing agency, and to study public policies affecting housing supply and affordability.

Laws to be reviewed in these studies include zoning

and subdivision regulations, local building codes, and landlord-tenant codes. Also to be evaluated is the use of tax policies to influence housing supply. The final report, to be prepared by the Hawaii Housing Authority, will be submitted to the 1985 legislative session.

Leasehold Rents

(SR 86, 1984)

As a result of a recent U.S. Supreme Court decision, lessees of residential houselots are ensured the opportunity to purchase their lots in fee. For those not yet able to afford this option, however, the payment of leasehold rents remains an obligation. For many lessees, rents have jumped in recent years, with some rents increasing over 2,000 percent.

To bring relief to leaseholders subject to these increases, the State Senate called for the Bishop Estate, the Campbell Estate, the Castle Estate, and other lessors of residential property to observe a moratorium on lease-rent increases until June 30, 1985. This period would allow the impact of the Supreme Court's ruling on the State Land Reform Act to be assessed. During the interim, a Senate committee on housing and urban development was to consider the lease-rent renegotiation situation, and formulate a renegotiation formula equitable to both lessors and lessees.

As reported to the legislature, the formula recommended by the committee ties the permitted amount of lease-rent increases to changes in the Standard and Poor's 500 Composite Dividend Yields. The committee also recommended that rent renegotiations occur every ten years, that lease rents on state lands also be made subject to the formula, and that the formula not influence the value of any leasehold property converted for fee simple acquisition.

ENERGY POLICIES

Energy development in Hawaii has been an area of encouraging successes and future promise. The state enjoys abundant renewable energy resources, the most developable of which is geothermal energy on the Big Island. Intensive efforts are now underway to tap these resources, distribute them to the areas of high energy demand, and ensure their commercial viability. The attraction of alternative energy development lies not only in its contribution towards Hawaii's energy self-sufficiency, but also in its support of other economic initiatives such as aquaculture and high technology industries. But, alternative energy development also has the promise of developing into a thriving new industry in its own right, and helping Hawaii become a world center for energy research.

Studies to be reviewed by the 1985 legislature include a plan to increase the commercial use of alternative energy in electricity production, and an assessment of the effects of geothermal energy development on the health of Puna residents.

Alternative Energy Development

(HCR 121, HR 315, 1984)

Nationally, electric utility companies have successfully shifted away from oil as a fuel source to coal and nuclear power. This shift affords them relative immunity from uncertainties in the future supply and price of oil.

In contrast, Hawaii's utilities continue to be almost totally dependent upon oil, and would therefore be vulnerable in any future oil crisis. Fortunately, Hawaii enjoys rich opportunities to develop alternate energy resources such as biomass, wind, solar, ocean thermal, and geothermal energy. To further realize this potential, the Department of Planning and Economic Development was asked to work with the various electric utilities in the state to develop a plan to increase the use of alternate energy for the production of electricity.

In response to this directive, a report completed by Hawaiian Electric Industries, Inc. discusses a two-pronged effort by the utility companies directed at the goal of energy self-sufficiency for the state. In the first approach, activity is aimed at increasing the efficiency of electricity production and use. Methods now being employed include improved maintenance, the installation of higher-efficiency equipment, and the recovery of waste heat. Customers are also being encouraged to use waste heat recovery systems and heat pumps, which have seen extensive application in Oahu's commercial and condominium buildings.

In the second approach, the utilities have promoted the development of alternative energy sources by funding and participating in a variety of alternative energy research projects. Power is also being purchased from various alternative energy producers. However, major progress in this area hinges on the development of geothermal energy and its transmission to Oahu. Recommended ways for state government to boost alternative energy development include the establishment of a fast-track development permitting system, the achievement of a more appropriate balance between the need for meritorious development projects versus the opposition from "not-in-my-backyard" groups, and the strengthening of tax incentives for alternative energy development and use.

Geothermal Pollution

(HR 253, 1983)

With the geothermal energy projects on the Big Island approaching full-scale commercial development, increased attention has focussed on safeguarding the health of nearby residents in Puna. Of the various emissions made by geothermal plants, hydrogen sulfide gas is the major public health concern. Little is known about the long-term effects of the gas on humans. However, Puna residents and persons residing near Mainland geothermal projects have already complained of specific health effects which they link to emissions from the existing demonstration plants.

The Department of Health has formed a medical panel to study the long-term effects of geothermal emissions on health. In the study, the health of Puna residents is to be annually surveyed and air samples taken to measure the concentration of hydrogen sulfide in the community. The results to be reported to the 1985 legislature should shed new light on whether geothermal plants can coexist safely with the Puna community.

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